Commercial Pricing

ASC (2007)

Commercial Item Definition

- Defined in FAR 2.101, it states in part…

"Commercial Item" means any item, oth
than real property, that is of a type cus
used for nongovernmental purposes an
(1) has been sold, leased or licensed t
general public; or
(2) has been offered for sale, lease, o
license to the general public;

Definition (Cont.)

(b) Any item that evolved from an item de
in paragraph (a) of this definition through
in technology or performance and that is
available in the commercial marketplace,
be available in the commercial marketpla
to satisfy the delivery requirements under
Government solicitation

Definition (Cont.)

(c) Any item that would satisfy a criterion expressed in paragraphs (a) or (b) of this but for--

(1) Modifications of a type customarily av in the commercial marketplace; or

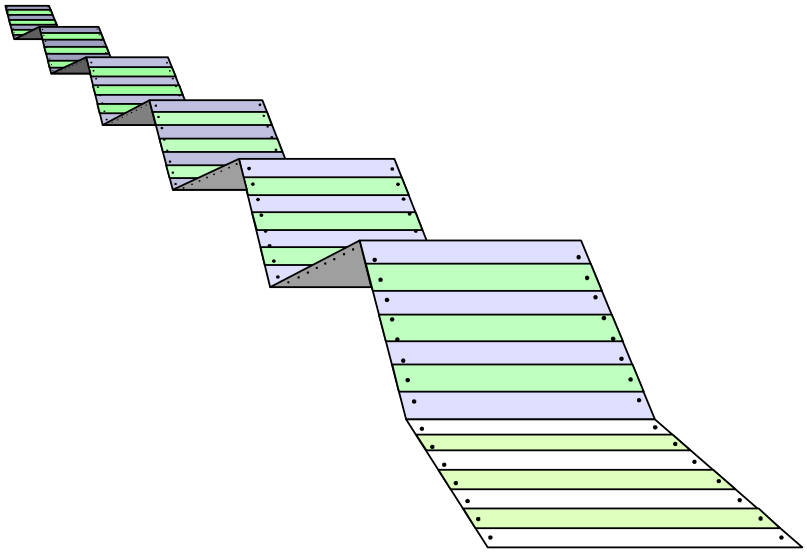
(2) Minor modifications of a type not cust available in the commercial marketplace meet Federal Government requirements.

Definition (Cont.)

Minor modifications means modifications that do not significantly alter the non-governmental function or essential physical characteristics of an item or component, or change the purpose of a process.
Factors to be considered in determining whether a modification is minor include the value and size of
the modification and the comparative value and size
of the final product. Dollar values and

Commercial Item Pricing

- Commercial **DOES NOT** mean no data!
- Commercial **DOES NOT** necessarily mean cheaper
- Commercial **DOES NOT** mean we don't negotiate



Commercial Pricing Techniques

- Parametrics
- Catalog Prices
- Historical Prices
- Market Prices/ Market Research
- Pricing Information Provided by Offerors

Parametrics

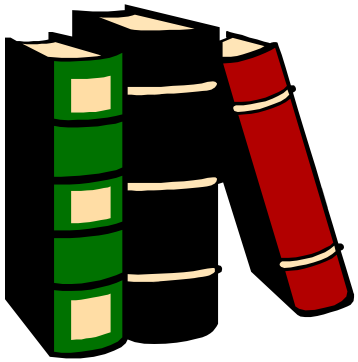
- Definition: Estimating technique that uses validated relationships between technical, programmatic, and co with known historical values
- Techniques
  - Cost Estimating Relationships: Formulas used to estimate cost of item as a function of relevant independent variables
  - Models: Incorporate equations, ground rules, assumptions, logic, and variables that define situation being estimated
    - Three Types: Company Developed, Commercial Hardware (Price H), Commercial Software (Price S

Parametrics

- **F-117 Over and Above Contingency Support**
  - **$3,087/day per aircraft used by LM Palmdale for War support – led to a $223M negotiation**
  - **Factor was based on history and regression**
    - **History of Amount Spent and Flying Hour correlation**
    - **Normalize data and project to period of performance**
  - **Used DCAA To Validate the history**
- **C130J used hours per pound based on**

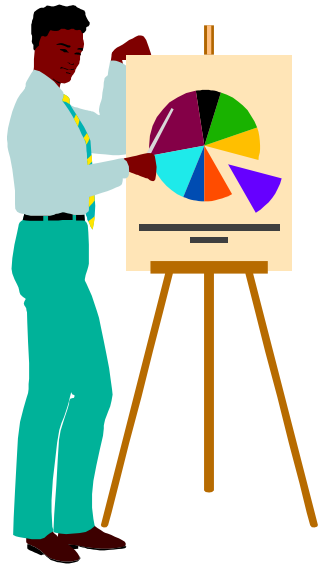
Catalog Prices

- **Based on catalog maintained by contractor**
  - **Copy of catalog**
    - **Basis of offered price**
    - **Proposed price relative to price of recent sales**
  - **CO can request limited data for same or similar items during relevant period to validate market activity**



Catalog Prices

- **Compare offered price to catalog price of same or similar items**
- **Adjust for differences in quantities, characteristics, time, discounts, etc.**
  - **Seek help from technical, DCMC/DCAA, others**
  - **Develop negotiation objective**
- **Negotiate a fair and reasonable price**
  - **Demand discounts, better terms, etc.**



Catalog Prices

- **Should be considered a starting point**
  - **Look for discounts due to most favored customer status**
- **Tends to apply to low dollar, simple items or clearly commercial items such as the Boeing 747 aircraft (Air Force One)**
- **Usually at subcontract level for major systems**

Historical Prices

- **Comparison to previous prices paid for the item**
  - **Basis must be relevant, not too old**
  - **Same or similar item, quantities, terms, etc.**
  - **Be sure market, technology has not changed**
  - **If not same, must adjust**
- **Basis price must have been determined reasonable based on something other than simply a comparison to a previous price**
- **Government cannot be expected to ignore its own history**

Historical Prices

- Numerous examples usually involving acquiring an end item (A/C, Radar, Targeting Pod)
- Normalization - configuration, inflation, quantity, business base, etc..,
- Price Negotiation Memorandums and Contract CLIN Prices primary source of information
- Contractor may be a source for historical commercial prices which DCAA can confirm

Market Prices

- **Comparison based on marketplace, or offers to other customers**
  - **Number of competitors, types of discounts**
  - **Based on other sources, terms, and discounts in market, degree of competition and any other factors**
  - **Offeror should be willing to provide some information**
  - **Use market research information**
  - **Get technical advice to compare same or similar items**
- **Need knowledge of marketplace, not individual vendors**

Market Research

DEFINITION: ***The collecting and analyzing of information about the market's capabilities to satisfy agency needs.***

- **Level of effort consistent with the value and complexity of the procurement**
- **Ongoing process to stay abreast of current advances in technologies and products**
  - **Key is to focus on the industry, not a particular company**

Sum of Two Processes

SURVEILLANCE

A continuous process -- Should not be dependent on a specific requirement

Provides a general sense of products available in the market and their characteristics and capabilities.

+

INVESTIGATION

A focused, in-depth effort - based on a specific requirement

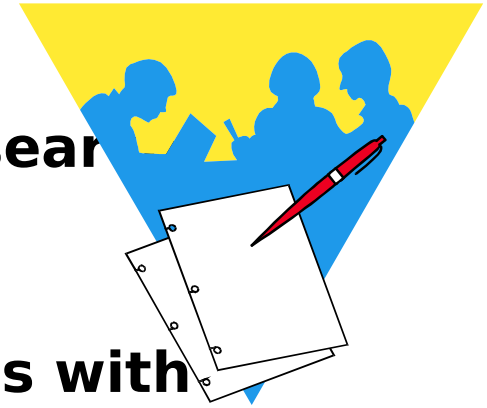
Determine, with a high degree of confidence, whether any products or services will satisfy the need, or can be modified or tailored accordingly.

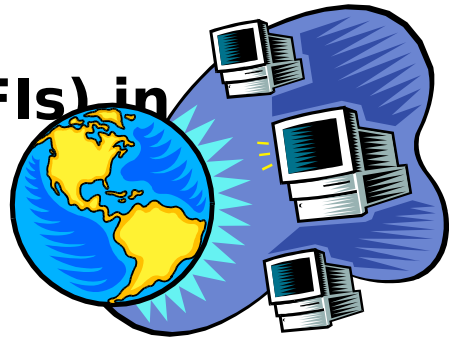
Two Processes (Cont.)

- **Market Surveillance**
  - Aware of what is in the marketplace
  - Customs, standard terms
  - Degree of competition
  - Technical function with contracting participation
  - Continuous process
- **Market Investigation**
  - Pricing, terms, financing, delivery of a specific item
  - Review of alternative sources or products

Market Research Techniques

- Contact experts
- Review results of recent market resear
- Review catalogs and other product literature
- Conduct pre-solicitation conferences with potential vendors
- Publish Requests for Information (RFIs) in appropriate journals/magazines
- Attend trade shows and workshops
- Contact professional associations
- Search on the Internet — extremely powerful tool





Market Research Internet Tools/Resources

- ConConnect
- MR PoST
- Industrial Base Information Center (IBIC)

Contract Connection

- **Access on AFMC /PK Homepage:**

  https://www.afmc-mil.wpafb.af.mil/HQ-AFMC/PK/connect.htm

  - **ConConnect contains these Tools:**

- Decision Tree Process for weighing alternatives and finding best option for putting requirement on contract

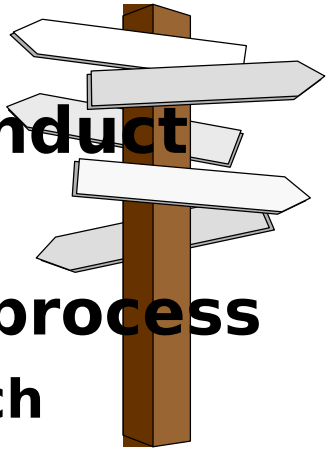
- Database of AFMC contracts allowing ordering by others

- Knowledge Areas and Sources

MR PoST

- **Market Research Performance Support Tool**
  - **Focuses on using the internet to conduct Market Research**
  - **Focuses on entire market research process**
    - **Roadmap for conducting market research**
    - **Step-by-step instructions**
  - **Captures market research reports in searchable database**
  - **Web-site is as follows:**

    https://afkm.wpafb.af.mil/ASPs/Market/mrpost/mrpost_classic.htm



Industrial Base Information Center

- **IBIC provides timely information about the Defense Technology and Industrial Base to directly support the planning and execution activities of Government users**
  - **Government and Commercial Sources**
  - **Online and Database Subscription Services**
- **Website is as follows:**

Market Prices/Market Research

- **C-17 – SPO wanted to establish market price by comparison to Cargo 747**
  - **Called Delta Airlines and Emery to get prices paid**
  - **C-17 deemed non-commercial, thus, info not used**
- **KC-767 Sources of information**
  - **(1) Library reference info from Jane's; also, Jane's has a web service (fee for service)**
  - **(2) Commercial marketplace info from Babcock & Brown (fee for service)**
  - **(3) Aircraft appraisal information from appraisal companies (fee for service)**
  - **(4) Discussion with Finance Vice President of Continental**

Market Prices/Market Research

- **KC-767 Sources of information (cont)**
  - **(5) PKF in-house PNMs (examples:C-17 fuel tanks and Combat Talon refueling pods)**
  - **(6) Historical KC-10 info from the archives**
  - **(7) The FM cost library**
  - **(8) DCMA study from the C-130J involving empty weight to price comparison**

Pricing Information Provided by Offerors

der of Preference when Obtaining Info (FAR 15.402(a))
nfo available within the government
nfo obtained from sources other than the offeror
Info obtained from the offeror:
Obtain type and level of data that is adequate to determine price reasonableness
At a minimum, contractor must submit info on prices at which the same or similar items have been sold i the commercial marketplace

Pricing Info Provided By Offerors

- Italian 767 Tanker – Other Customer Price Contracts Shown by Boeing to AFNT with Non-disclosure agreements
- JPATS – Raytheon provided “other than cost or pricing data” ($1.2B)

Pricing Info Provided By Offerors

- **117-PW-100 Engines for the C-17**
  - **Modified engine used in Boeing 757**
  - **Proposal reflected nine possible pricing scenarios, discounts, payment modes**
  - **Govt to receive Most Favored Customer (MFC) status (Govt price equal to or better than other customers)**
    - **To confirm MFC status, P&W allowed CO/Pricer review of other contracts**
    - **Non-Disclosure Agreements Signed**
    - **CO/Pricer Notes Stamped PROPRIETARY**

Other Commercial Pricing Information

- MODIFICATIONS
- SOURCES OF INFORMATION
- C-130J MAINTENANCE AND AIRCREW TRAINING SYSTEM (JMATS)

Price Analysis Major Mods

- KC 767 Mod from “green” A/C to tanker A/C
  - Used historical data from KC-10 & KC135
  - Obtained KC-10 mod data from archive
- C-17 Extended Range (Cntr Fuse Tanks)
  - Boeing claimed price was Market
  - AFNT demanded some data – Big Fight
  - Boeing capitulated – gave USAF the cost data the original estimate was based on
- Avoid Pricing Modifications without Cost Information

Sources Of Information

- AFIT Library – Bldg 641
- FM Cost Library – Bldg 14
- Archives – Bldg 258 E St between Fifth and Monohan (Microfiche)
- ASC Pricing – Bldg 16
  - Tom Hudnell, #57071
  - Karl Heiland, #57095

C-130J Maintenance And Aircrew Training System (JMATS)

- A “REAL LIFE” COMMERCIAL EFFORT OF A CONTRACTING OFFICER
- DEMONSTRATES SUCCESS IS MORE DETERMINATION THAN DEPTH OF PRICING KNOWLEDGE
- THE CHARTS THAT FOLLOW SUMMARIZE WHAT HE DID

JMATS Price Methodology

- Do market research to find prices of like items FAR 15.402(a)(2)
- Get proposed prices in response to RFP
- Perform price comparison with like items
  - Factor in complexity and inflation
- Request additional price information where no market data exists
  - Other than cost or pricing data (no certified cost/pricing data requested) FAR 15.403-3

JMATS Price Methodology

- Historical prices from RAAF, RNZAAF and IAF C-130J A/C contracts requested and reviewed
  - Training equipment was mostly priced as lump sum
  - Not as helpful as anticipated
  - Contacted British PCO to verify “facts” from Lockheed
    - » *Commercial buys will make you believe in TINA!*

- Performed comparison to like systems
  - Looked at C-17, C-130 ATS/H2/H3/Marine J systems
    - » FM cost estimator helped look up prices
    - » Developed initial AF positions

JMATS Price Methodology

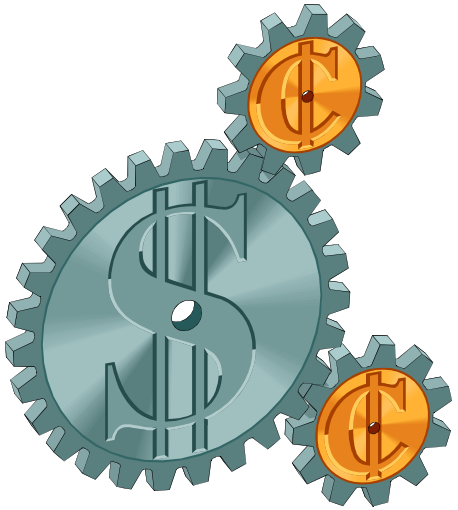
- **Reviewed historical data, comparison data and *uncertified* pricing data**
  - **Spares/subsystem recurring prices: existing contracts**
  - **Tech data: previous contracts, adjusted for complexity**
  - **Courseware: factors - AF handbook and FM factors**
- **Pricing data was requested where market data and historical pricing were unavailable**
  - **Top level hours and material prices**
  - **Subcontractor's proposed prices**
  - **Estimated software lines of code (Cocomo model)**

JMATS Price Methodology

- **Used DCAA inputs for Lockheed and Subs**
  - **Labor/overheads rates applied to manhour estimates**
  - **Material handling and G&A rates to apply to AF generated direct material positions**
- **Economic rates and other factors**
  - **US Dept of Labor BLS data for labor and material inflation (DRI or WEFA – now called Global Insights)**
  - **Cost estimating factors from FM handbook**

DCAA Support

- Verify sales history
- Identify special terms and conditions
- Identify customarily offered discounts for the item
- Verify catalogs or price lists
- Verify historical data for an item previously not determined commercial that is now being considered for the commercial exception



DCMA Support

Can Support:

- **Market research**
- **Can support the determination of an item, when modified to meet DoD needs, still fits “commercial item” definition**
- **Pricing minor modifications to commercial items**
- **Pricing a commercial item for which there is no sales history**

Closing Thoughts

- **Negotiation is a common business practice**
  - **For sole source or competitive**
  - **For commercial or government**
- **Negotiation should result in a reasonable business deal (more than just price) that includes:**
  - **Price -- Financing**
  - **Delivery -- Other factors**
  - **Terms and conditions**
- **<u>Everything is negotiable</u> including a**